

# Rubin & Hays

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CHARLESS MUSSON  
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PARALEGAL  
MARY M EMBRY

October 3, 2005

Ms. Beth O'Donnell, Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, Kentucky 40602

OCT 5 2005

Re: Cumberland County Water District PSC Application

2005-412

Dear Ms. O'Donnell:

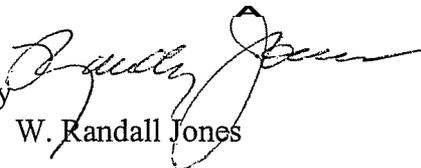
Enclosed please find the original and ten (10) copies of the Application of the Cumberland County Water District for an Order authorizing the issuance of securities pursuant to KRS 278.300.

This Application requests approval of the issuance of securities for the purpose of financing the acquisition of equipment.

Thank you for your assistance and if you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By   
W. Randall Jones

WRJ:jl  
Enclosures

cc: Mr. Johnny Carter, Cumberland County Water District  
Ms. Kristen Curtis, Morgan Reegan

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

IN THE MATTER OF:

**THE APPLICATION OF CUMBERLAND COUNTY )  
WATER DISTRICT TO ISSUE SECURITIES )  
IN THE APPROXIMATE PRINCIPAL AMOUNT )  
OF \$107,000 FOR THE PURPOSE OF FINANCING ) CASE NO. \_\_\_\_\_  
THE ACQUISITION OF CERTAIN EQUIPMENT )  
FOR THE DISTRICT PURSUANT TO THE )  
PROVISIONS OF KRS 278.300 )**

**\*\*     \*\*\*     \*\*\*\*     \*\*\*\*\*     \*\*\*\*     \*\*\*     \*\***

**APPLICATION**

The Applicant, Cumberland County Water District (the "District"), files this Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Kentucky Public Service Commission (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal sum \$107,000 (subject to adjustment of up to 10%), for the purpose of financing the acquisition of a backhoe and miscellaneous equipment. In support of this Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The District was established in accordance with the provisions of Chapter 74 of the Kentucky Revised Statutes pursuant to an Order of the County Judge/Executive of Cumberland County, which Order is on file in the County Court Order Books in the office of the Clerk of Cumberland County, Kentucky. The District is now, and has been since its inception, regulated by the Commission, and all records and proceedings of the Commission with reference to the District

are incorporated in this Application by reference. The District does not have any Articles of Incorporation due to the fact that it is a statutory entity.

2. The governing body of the District is its Board of Commissioners which is a public body corporate, with power to make contracts in furtherance of its lawful and proper purpose as provided for in KRS 74.070 and all applicable law and regulations.

3. The mailing address of the District is as follows:

Cumberland County Water District  
c/o Mr. Johnny Carter, Manager  
1236 Columbia Road  
Burkesville, Kentucky 42717  
Telephone: (270) 864-3133

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2004 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The District proposes to borrow funds from the Kentucky Rural Water Finance Corporation ("KRWFC") pursuant to an Assistance Agreement (the "2005 Loan"), in the estimated principal amount of \$107,000 (subject to adjustment of up to 10%) for the purpose of financing the acquisition of a backhoe and miscellaneous equipment.

6. The estimated debt service for the 2005 Loan is shown in **Exhibit A**, which is attached hereto and incorporated herein by reference. The debt service schedule and estimated interest rates are subject to change because of market conditions. The final terms and details of the 2005 Loan may vary from the present assumptions based upon market conditions and other business judgment factors.

7. The 2005 Loan will provide the District with the funds necessary to (i) finance the acquisition of a backhoe and miscellaneous equipment; and (ii) pay the fees and expenses incident to the issuance of the 2005 Loan.

8. The Sources and Uses of Funds to be obtained from the issuance of the 2005 Loan are detailed as **Exhibit B**, which is attached hereto and incorporated herein by reference.

9. The final principal amount of the 2005 Loan will be adjusted, based upon final interest rates which will be known on or about September 21, 2005, in order to provide funds sufficient to finance the aforesaid equipment acquisition. Final financial figures will be submitted to the Commission in a timely manner.

10. The District represents that the 2005 Loan is in the public interest and is intended to provide the District with the equipment necessary to maintain the District's water works system. This is a lawful object within the corporate purposes of the District's utility operations. The 2005 Loan is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

11. The District represents that it will, as soon as reasonably possible after the closing of the 2005 Loan, file with the Commission a statement setting forth the date of issuance of the 2005 Loan, the price paid, the fees and expenses incurred in the issuance of the 2005 Loan, and the terms and interest rates of the 2005 Loan.

12. The detailed Statement of Revenue and Expenses, Balance Sheet and Statement of Cash Flows for the twelve month period ending on December 31, 2004 are attached hereto and incorporated herein by reference as **Exhibit C** respectively.

13. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11 (2) (a) are contained in the 2004

Annual Report which is on file with the Commission. The **Annual** Report is incorporated herein by reference.

14. Pursuant to 807 KAR 5:001, the District hereby responds as follows:
  - (a) Section 6(4) Mortgages: The District does not have any mortgages in effect as of the date hereof.
  - (b) Section 6(5) Bonds: The 2005 Loan will be secured by a pledge of the revenues of the District's System.
  - (c) Section 11(2)(b): The District does not have any trust deeds in effect as of the date hereof.
  - (d) Section 11(2)(c): No real property is being acquired as the proceeds of the securities are being used for the acquisition of equipment.

15. The District hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the application. The District states that there has been no change that is material in nature in the financial condition or operation of the District since December 31, 2004. The financial data filed with this Application is for the twelve (12) month period ending December 31, 2004. This is the most recent published financial data available. Because of the volatility of the bond market, the District cannot run the risk of delaying the closing of the 2005 Loan while more current financial data is compiled.

16. No rate adjustment will be necessary.

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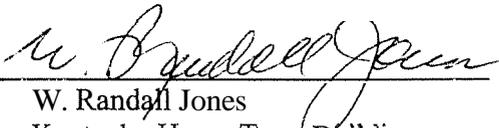
**WHEREFORE**, the District respectfully requests that the Commission take the following actions:

1. Authorize the issuance of the securities requested in the Application prior to the closing date of **October 19, 2005**;

2. Grant the District a deviation, to the extent necessary, from 807 KAR 5:001, Section 6 to allow the submission of the District's 2004 Annual Report and 2004 Audit in lieu of more recent financial data, there being no material change in the data in 2005 and due to the volatility of the present bond market; and

3. Process this Application without a formal hearing in order to save time and expense. The District will promptly respond to any inquiries or information requests by the Commission's staff.

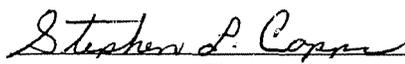
RUBIN & HAYS

By   
W. Randall Jones  
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Phone: (502) 569-7525  
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Counsel for Cumberland County  
Water District

STATE OF KENTUCKY            )  
  ) SS  
COUNTY OF CUMBERLAND    )

The affiant, Steve Capps, being **first** duly sworn, states: That he is the **Chairman** of the Cumberland County Water District, the Applicant in this case; that he has read the foregoing Application and has noted the contents thereof: that the same are true of his own knowledge and belief, except as to matters which are herein stated to be based on information or belief, and that these matters, he believes to be true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 29 day of September, 2005.

  
\_\_\_\_\_  
Steve Capps, Chairman

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by Steve Capps, Chairman of the Cumberland County Water District, on this the 29 day of September, 2005.

My Commission expires: January 8<sup>th</sup> 2008

  
\_\_\_\_\_  
NOTARY PUBLIC



**\$107,000**  
*Cumberland County Water District*  
*Kentucky Rural Water Finance Corporation*  
*Flexible Term Program, Series 2005 B*

**Debt Service Schedule**

Part 1 of 2

Date	Princioal	Coupon	Interest	Total P+I
02/01/2006			3,851.92	3,851.92
08/01/2006			2,311.15	5,311.15
02/01/2007	3,000.00	3.250%	2,262.40	2,262.40
08/01/2007			2,262.40	5,262.40
02/01/2008	3,000.00	3.330%	2,212.45	2,212.45
08/01/2008			2,212.45	5,212.45
02/01/2009	3,000.00	3.420%	2,161.15	2,161.15
08/01/2009			2,161.15	5,161.15
02/01/2010	3,000.00	3.500%	2,108.65	2,108.65
08/01/2010			2,108.65	5,108.65
02/01/2011	3,000.00	3.580%	2,054.95	2,054.95
08/01/2011			2,054.95	5,054.95
02/01/2012	3,000.00	3.700%	1,999.45	1,999.45
08/01/2012			1,999.45	4,999.45
02/01/2013	3,000.00	3.820%	1,942.15	1,942.15
08/01/2013			1,942.15	4,942.15
02/01/2014	3,000.00	3.930%	1,883.20	1,883.20
08/01/2014			1,883.20	4,883.20
02/01/2015	3,000.00	4.020%	1,822.90	1,822.90
08/01/2015			1,822.90	4,822.90
02/01/2016	3,000.00	4.100%	1,761.40	1,761.40
08/01/2016			1,761.40	5,761.40
02/01/2017	4,000.00	4.180%	1,677.80	1,677.80
08/01/2017			1,677.80	5,677.80
02/01/2018	4,000.00	4.240%	1,593.00	1,593.00
08/01/2018			1,593.00	5,593.00
02/01/2019	4,000.00	4.290%	1,507.20	1,507.20
08/01/2019			1,507.20	5,507.20
02/01/2020	4,000.00	4.340%	1,420.40	1,420.40
08/01/2020			1,420.40	5,420.40
02/01/2021	4,000.00	4.390%	1,332.60	1,332.60
08/01/2021			1,332.60	6,332.60
02/01/2022	5,000.00	4.440%	1,221.60	1,221.60
08/01/2022			1,221.60	6,221.60
02/01/2023	5,000.00	4.900%	1,099.10	1,099.10
08/01/2023			1,099.10	6,099.10
02/01/2024	5,000.00	4.530%	985.85	985.85
08/01/2024			985.85	5,985.85
02/01/2025	5,000.00	4.570%	871.60	871.60
08/01/2025			871.60	5,871.60
02/01/2026	5,000.00	4.610%	756.35	756.35
08/01/2026			756.35	6,756.35
02/01/2027	6,000.00	4.650%	616.85	616.85
08/01/2027			616.85	6,616.85
02/01/2028	6,000.00	4.690%	616.85	6,616.85

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**\$107,000**

*Cumberland County Water District  
Kentucky Rural Water Finance Corporation  
Flexible Term Program, Series 2005B*

**Debt Service Schedule**

Part 2 of 2

Date	Principal	Coupon	Interest	Total P+I
08/01/2028			476.15	476.15
02/01/2029	6,000.00	4.730%	476.15	6,476.15
08/01/2029			334.25	334.25
02/01/2030	7,000.00	4.760%	334.25	7,334.25
08/01/2030			167.65	167.65
02/01/2031	7,000.00	4.790%	167.65	7,167.65
Total	\$107,000.00		\$74,701.27	\$181,701.27

**Yield Statistics**

Accrued Interest from 10/01/2005 to 10/19/2005.....	231.12
Bond Year Dollars.....	\$1,649.67
Average Life.....	15.417 Years
Average Coupon.....	4.5282645%
Net Interest Cost (NIC).....	4.6255478%
True Interest Cost (TIC).....	4.6366308%
Bond Yield for Arbitrage Purposes.....	4.5704082%
All Inclusive Cost (AIC).....	5.0743166%

**IRS Form 8038**

Net Interest Cost.....	4.5296415%
Weighted Average Maturity.....	15.367 Years



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**\$107,000**

*Cumberland County Wafer District  
Kentucky Rural Wafer Finance Corporation  
Flexible Term Program, Series 2005 B*

**Sources & Uses**

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Dated 10/01/2005 | Delivered 10/19/2005

**Sources Of Funds**

Par Amount of Bonds.....	\$107,000.00
Accrued Interest from 10/01/2005 to 10/19/2005.....	231.12
<b>Total Sources .....</b>	<b>\$107,231.12</b>

**Uses Of Funds**

Total Underwriter's Discount .....	1,604.85
Costs of Issuance.....	4,105.00
Gross Bond Insurance Premium (29.7 bp).....	539.65
Deposit to Debt Service Fund.....	231.12
Deposit to Project Construction Fund.....	100,000.00
Rounding Amount.....	750.50
<b>Total Uses .....</b>	<b>\$107,231.12</b>



**CUMBERLAND COUNTY WATER DISTRICT  
BALANCE SHEETS  
December 31, 2004 and 2003**

**ASSETS**

	<b>2004</b>	<b>2003</b>
<b><u>ASSETS AND OTHER DEBITS</u></b>		
Utility and nonutility property, plant and equipment		
Utility plant in service	\$ 7,868,356	\$ 7,493,266
Less: accumulated depreciation	<u>(3,220,333)</u>	<u>(3,013,044)</u>
<b>Net</b> utility plant in service	4,648,023	4,480,222
Total utility and nonutility property, plant and equipment	<u>4,648,023</u>	<u>4,480,222</u>
Current and accrued assets		
Cash	12,644	2,828
Special <b>Deposits</b>	272,621	259,874
Accounts receivable, less accumulated provision for <b>uncollectible</b> accounts	62,409	58,510
Materials and supplies inventory	29,759	31,572
Prepaid expenses	8,797	7,169
Accrued interest receivable	<u>184</u>	<u>212</u>
Total current and accrued assets	<u>386,414</u>	<u>360,165</u>
<b><u>TOTAL ASSETS AND OTHER DEBITS</u></b>	<b><u>\$ 5,034,437</u></b>	<b><u>\$ 4,840,387</u></b>

The accompanying notes are an integral part of these financial statements  
Page 6

**CUMBERLAND COUNTY WATER DISTRICT  
BALANCE SHEETS - CONTINUED  
December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b><u>EQUITY CAPITAL AND LIABILITIES</u></b>		
Equity capital		
Retained earnings	\$ (2,094,966)	\$ (1,965,934)
Donated capital	<u>5,082,395</u>	<u>4,711,475</u>
Total equity capital	<u>2,987,429</u>	<u>2,745,541</u>
Long-term debt		
Bonds	<u>4,792,100</u>	<u>1,839,900</u>
Current and accrued liabilities		
Accounts payable	19,716	26,491
Customer deposits	37,258	36,766
Accrued payroll taxes	11,533	8,565
Accrued interest	87,369	89,583
Current maturities of long-term debt	89,200	84,100
Miscellaneous current <b>and</b> accrued liabilities	<u>9,832</u>	<u>9,441</u>
Total current and accrued liabilities	<u>254,908</u>	<u>254,946</u>
<b><u>TOTAL EQUITY CAPITAL AND LIABILITIES</u></b>	<u>\$ 5,034,437</u>	<u>\$ 4,840,387</u>

**CUMBERLAND COUNTY WATER DISTRICT  
STATEMENTS OF OPERATION**  
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b><u>OPERATING REVENUES</u></b>		
Residential customers	\$ 680,094	\$ 646,855
Commercial customers	41,498	36,664
Industrial customers	6,304	5,942
Public authority customers	36,067	31,443
Miscellaneous	<u>12,386</u>	<u>13,773</u>
 Total operating revenues	 <u>776,349</u>	 <u>734,677</u>
 <b><u>OPERATING EXPENSES</u></b>		
Water purchased	101,837	101,943
Salaries and wages	226,120	204,300
Employee retirement	9,198	7,935
Taxes	17,903	17,833
Office expense	25,850	25,828
Insurance	43,270	34,306
Transportation costs	22,387	10,571
Special assessments	1,268	1,133
Directors fee	7,500	0
Purchased power	43,912	42,248
Materials, supplies, and plant expense	90,071	57,987
Chemical supplies	30,233	24,020
Contractual services	8,019	30,633
Depreciation	<u>211,146</u>	<u>213,675</u>
 Total operating expenses	 <u>838,714</u>	 <u>772,412</u>
 Operating income (loss)	 <u>(62,365)</u>	 <u>(37,735)</u>
 <b><u>NON-OPERATING REVENUE (EXPENSES)</u></b>		
Miscellaneous	17,328	7,115
Interest income	5,394	4,392
Interest expense	<u>(89,389)</u>	<u>(102,404)</u>
 Total non-operating revenues (expenses)	 <u>(66,667)</u>	 <u>(90,897)</u>
 Change in net income before capital contributions	 (129,032)	 (128,632)
 Proceeds form capital contributions	 <u>370,920</u>	 <u>12,255</u>
 <b><u>CHANGE IN EQUITY CAPITAL</u></b>	 <u>\$ 241,888</u>	 <u>\$ (116,377)</u>

The accompanying notes are an integral part of the financial statements  
Page 8

**CUMBERLAND COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOW  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
For the Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b><u>Cash flows from operating activities:</u></b>		
Cash received from grants	\$ 345,510	\$ 0
<b>Cash</b> received from customers	760,064	723,603
Cash received from other sources	60,731	27,958
Cash payments to <b>employees</b>	(232,350)	(208,791)
Cash payments to suppliers for goods and services	(404,213)	<b>(358,534)</b>
Cash payments for interest	<u>(89,389)</u>	<u>(102,404)</u>
<b>Net cash provided by operating activities</b>	<u>440,353</u>	<u>81,832</u>
<b><u>Cash flows from capital and related financing activities:</u></b>		
Principal paid on revenue bonds	(42,700)	<b>(36,300)</b>
Acquisition of fixed assets	<u>(375,090)</u>	<u>(49,201)</u>
<b>Net cash used by capital and related financing activities</b>	(417,790)	<b>(85,501)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>22,563</u>	<u>(3,669)</u>
<b>Cash and cash equivalents at January 1, 2004</b>	<u>262,702</u>	<u>266,371</u>
<b>Cash and cash equivalents at December 31, 2004</b>	<u><u>\$ 285,265</u></u>	<u><u>\$ 262,702</u></u>

The accompanying notes are an integral part of these financial statements.

**CUMBERLAND COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOW  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
For the Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b><u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u></b>		
<b>Change in Equity Capital</b>	\$ 241,888	\$ (116,377)
Adjustments to reconcile change in equity capital to net cash provided by operating activities:		
Depreciation and amortization of bad debt	207,289	210,068
Changes in assets and liabilities:		
(Increase) decrease in customer accounts receivable	(3,899)	2,699
(Increase) decrease in other receivables	28	64
(Increase) decrease in materials and supplies inventory	1,813	(10,255)
(Increase) decrease in prepaid expenses	(1,628)	614
Increase (decrease) in accounts payable and accrued expenses	(5,630)	14,969
increase (decrease) in customer deposits	492	<u>(9,950)</u>
Total adjustments	<u>198,465</u>	<u>198,209</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 440,353</u></b>	<b><u>\$ 81,832</u></b>

The accompanying notes are an integral part of these financial statements.

**CUMBERLAND COUNTY WATER DISTRICT  
STATEMENTS OF CHANGES IN EQUITY CAPITAL  
December 31, 2004 and 2003**

	2004	2003
<b><u>EQUITY CAPITAL</u></b>		
Retained earnings		
Beginning balance	\$ (1,965,934)	\$ (1,837,302)
Net Loss	(129,032)	(128,632)
Ending balance	(2,094,966)	(1,965,934)
Donated capital		
Beginning balance	4,711,475	4,699,220
Proceeds from capital contributions	370,920	12,255
Ending balance	5,082,395	4,711,475
<b><u>TOTAL EQUITY CAPITAL</u></b>	<b>\$ 2,987,429</b>	<b>\$ 2,745,541</b>

The accompanying notes are an integral part of these financial statements.  
Page 9